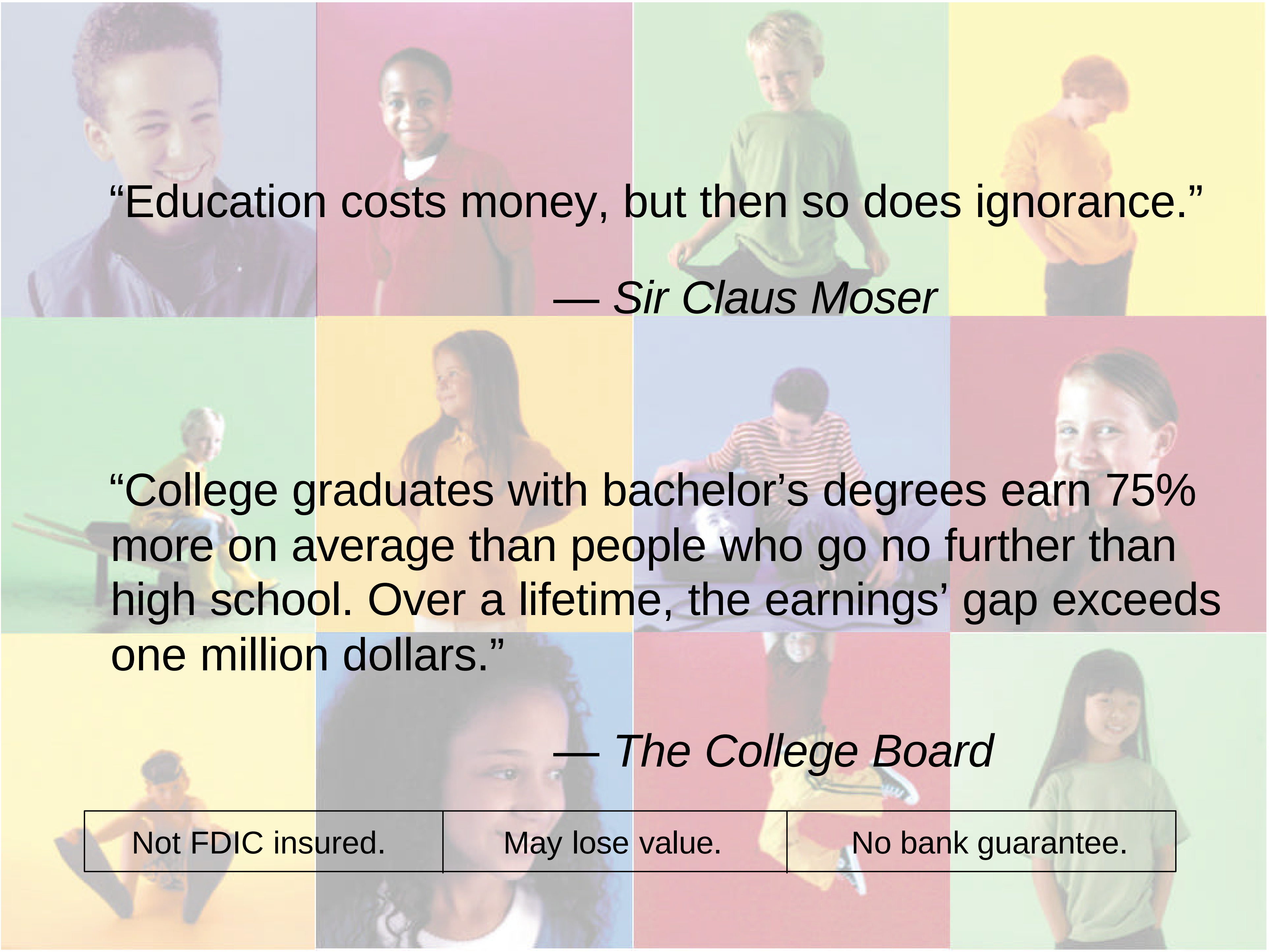
The following presentation regarding College Saving and 529 Plans, was given by Loreen Gilbert, Financial Consultant, on December 5, 2000. Loreen can be reached at 949-788-2929 or email her at loreeng@earthlink.net



"Education costs money, but then so does ignorance."

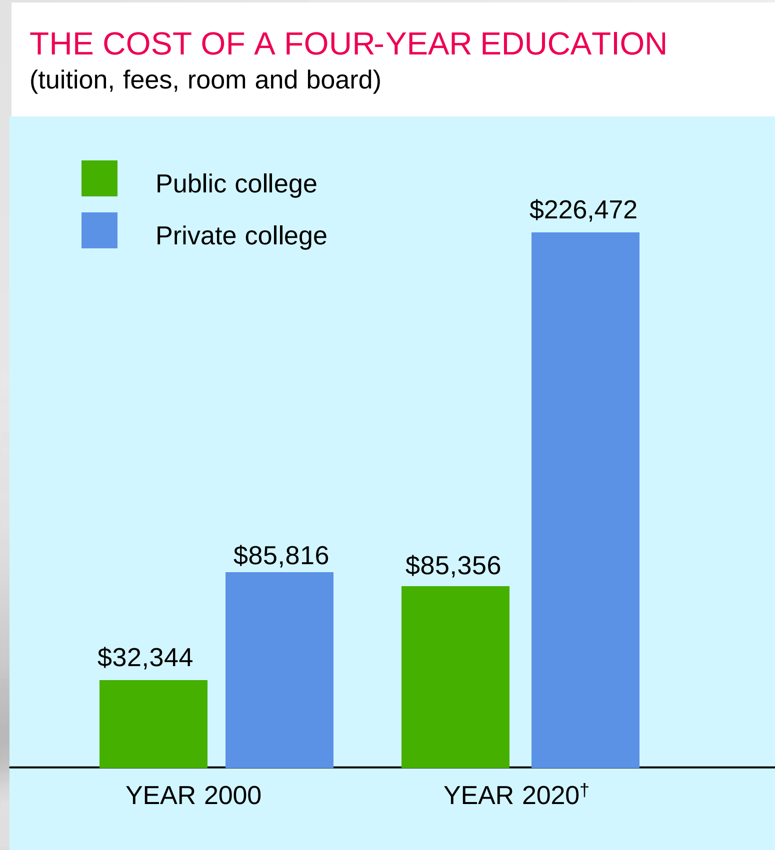
— *Sir Claus Moser*

"College graduates with bachelor's degrees earn 75% more on average than people who go no further than high school. Over a lifetime, the earnings' gap exceeds one million dollars."

— *The College Board*

Not FDIC insured.	May lose value.	No bank guarantee.

The rising cost of college



*Source: Annual Survey of Colleges, “Trends in the Cost of Higher Education,” The College Board.
†Estimate assumes 5% rate of inflation

The student's role

- Take challenging classes in English, mathematics, science, history, geography, foreign languages, government, civics, economics, and the arts
- Talk to guidance counselors; look through college resources
- Study for SATs; prepare college applications carefully
- SAVE MONEY

The parent's role

- Learn about different ways to save money
- Educate yourselves about investment principles, including
  - Return — annual % needed to reach your goal
  - Risk — higher returns mean greater risk
  - Liquidity — withdrawing money from your investments
  - Time frame — how many years will you need to save?
- Start saving early
- Learn about **tax-advantaged** investments

The importance of starting early

	THE SMITHS	THE AMES
Child’s age when investing started	**8**	**Newborn**
Savings goal for college	**$150,000**	**$150,000**
Monthly investments required	**$799**	**$309**
INVESTMENT TIME FRAME	**10 YEARS**	**18 YEARS**
Total investments	**$95,874**	**$66,755**
Total earnings at assumed 8% per year	**$54,126**	**$83,245**
Cost of waiting	**$29,119**	**$0**

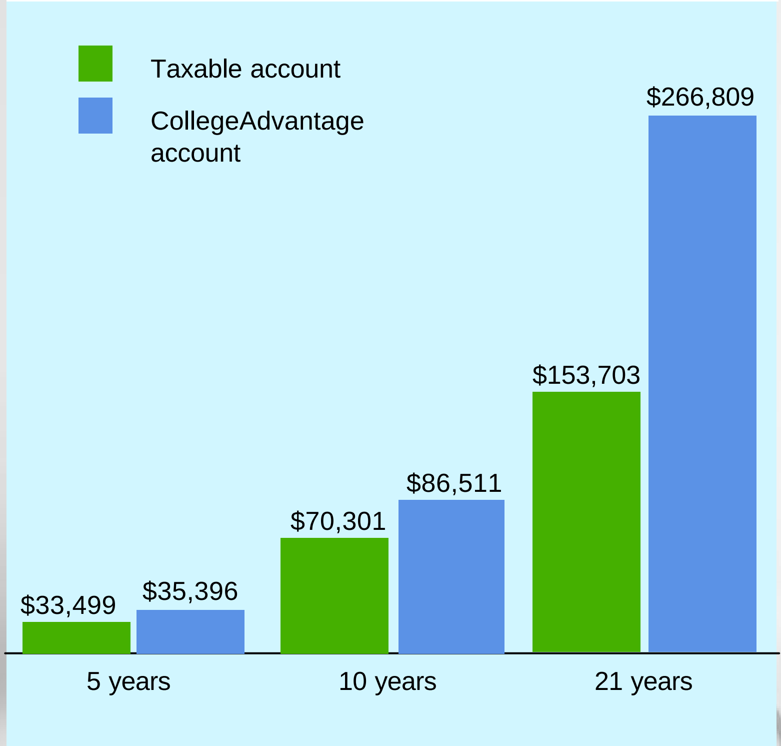
*From “Saving for College - When and How,” by Vern Hayden, *The Street.com*, 10/21/98.

How taxes affect investments

- Over time, federal and state taxes can claim up to 25% or more of an investor's returns
- The later you start saving, the more taxes matter
- A growing number of tax-advantaged investment options are available

How taxes affect investments

FASTER GROWTH POTENTIAL THAN
TAXABLE ACCOUNTS



This example assumes contributions of $500 per month, a hypothetical 8% nominal rate of return compounded monthly with an effective return of 8.30%, and a 28% tax bracket for the taxable account. The Putnam CollegeAdvantage account assumes a marginal tax rate of 15%, 28%, and 31%, respectively, applied to accrued earnings at the end of the 5-, 10-, and 21-year periods. The return is shown for illustrative purposes only and is not intended to predict the return of any one investment, which will fluctuate. Regular investing does not ensure a profit or protect against loss in a declining market. Nonqualified withdrawals are taxed at the owner's rate and are subject to a 10% penalty.

Four tax-advantaged ways to save for education

- Education IRA
- Custodial account (UGMA/UTMA)
- 529 prepaid tuition plan
- 529 college savings plan

Education IRA: Key features

- Tax-free accumulation and tax- and penalty-free withdrawals for qualified higher education expenses
- Contributions can be made in a broad range of investment options
- Anyone can contribute to an Education IRA on behalf of a child

Education IRA: Things to consider

- Contributions cannot exceed $500 per child, per year
- Contributions are subject to income limitations
- Earnings withdrawals that exceed qualified education expenses may be subject to income tax and an additional 10% tax
- May disqualify beneficiary from HOPE Scholarship and Lifetime Learning Credit
- Assets transfer to beneficiary at legal age

Contributions to an Education IRA are limited

	ADJUSTED GROSS INCOME	ADJUSTED CONTRIBUTION LIMIT PER CHILD
SINGLE	$95,000 or less	$500
	$95,001-$109,999	$0-$499
	$110,000 and over	No contribution
MARRIED AND FILING A JOINT RETURN	$150,000 or less	$500
	$150,001-$159,999	$0-$499
	$160,000 and over	No contribution

Custodial account (UGMA/UTMA): Key features

- Parents and grandparents can transfer up to $10,000 a year, per child, gift-tax free
- The first $700 of investment income is tax-free
- For children under 14, investment income between $700 and $1,400 is taxed at the child's rate; income above $1,400 is taxed at parent's top rate
- For children over age 14, investment income above $700 is taxed at the child's rate
- Does not disqualify child from HOPE Scholarship or Lifetime Learning Credit

Custodial account (UGMA/UTMA): Things to consider

- Contributions treated as irrevocable gifts to the child but are included in custodian's gross estate if he or she dies while serving as custodian
- Account assets legally belong to the child; parent loses control once the child reaches legal age
- Child does not have to spend money on education
- Treated as student's assets for financial aid purposes

Darren goes to Europe

- Parents set up and contribute to UGMA account for Darren's college education
- Account is worth $100,000 when Darren turns age 18 (the age of majority in Darren's state)
- Darren decides he doesn't want to attend college and instead travels in Europe using the UGMA account to finance his trip

529 prepaid tuition program: Key features

- Locks in today's cost of tuition and may be backed by the full faith and credit of issuing state
- Difference between benefit amount and purchase price is taxed at beneficiary's federal tax rate
- In-state residents may qualify for state income tax deductions and exemptions
- Beneficiaries remain qualified for HOPE Scholarship and Lifetime Learning Credit

529 prepaid tuition program: Things to consider

- Designed only to match rate of tuition inflation of in-state public universities
- The number of eligible colleges may be restricted in some states
- Contributors to a 529 prepaid tuition program cannot make a contribution to an Education IRA in the same year
- Treated as student's assets for financial aid purposes

Designed for in-state universities

- Although many prepaid tuition plans permit you to use the proceeds at out-of-state and private colleges, the accounts are typically designed to track rising costs at the average, in-state, public university.

529 college savings plan: Key features

- Market-based returns from a portfolio of mutual funds; earnings grow tax-deferred until withdrawn
- Investors retain complete control over withdrawals for the life of the account
- Proceeds may be used at any accredited post-secondary school in the United States
- Beneficiaries remain eligible for HOPE Scholarship and Lifetime Learning Credit in the same year

Estate planning benefits illustration

COLLEGE ADVANTAGE'S ESTATE TAX BENEFIT

Barbara contributes $50,000 to each of her three grandchildren's CollegeAdvantage accounts, which earn 8%.

$50,000 for Bob, age 11

$50,000 for Betty, age 5

$50,000 for Billy, age 2

Bob's account value 7 years later.
$85,691

Betty's account value 13 years later.
$135,981

Billy's account value 16 years later.
$171,297

Current gross estate value	$825,00
Less CollegeAdvantage contributions:	$150,000

New gross estate value: $675,000

Barbara cuts her federal estate tax bill by $55,000 (to $0)

Based on assumptions for tax year 2000.

529 college savings plan: Contributions

- Maximum contributions typically in excess of $125,000 for the life of the account
- Low minimum contributions with most plans
- Contributions can be as low as $15 per month
- Contributions may total $10,000 per year, per beneficiary ($20,000 for married couples filing jointly) without exceeding the annual federal gift-tax exclusion
- $50,000 may be contributed gift tax free in the first year of a five-year period, provided that no other gifts are made to the same beneficiary during that time
- Contributions are considered gifts of present interest and can lower the taxable value of a contributor's estate

529 college savings plan: Things to consider

- Proceeds not used for qualified higher education expenses are taxed at the owner's tax rate and are subject to an additional 10% penalty
- Capital gains are taxed as ordinary income when withdrawn*
- Investment values are not guaranteed
- Contributors to a 529 college savings plan cannot make a contribution to an Education IRA in the same year

*Taxes due may be higher than if the assets were held outside the account.

What if your child doesn’t go to college?

- Since you retain control over withdrawals, you have the following options if the beneficiary decides not to attend college:
  - Change beneficiaries (new beneficiary must be an immediate family member of the old beneficiary)
  - Leave the assets invested for later use
  - Withdraw the assets*

*Earning’s portion of nonqualified withdrawal is generally taxed at owner’s tax rate and is subject to an additional 10% penalty.

Next steps

- Study the options
- Assess which plan is right for you
- Start saving as soon as possible!
- To set up an account, contact:

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949.788.2929

Participation in the CollegeAdvantage savings plan does not guarantee that contributions and the investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses or that a beneficiary will be admitted to or permitted to continue to attend an institution of higher education.

An investment in any option involves investment risk. Returns on contributors' investment in the Putnam CollegeAdvantage savings plan are not guaranteed by the State of Ohio, Ohio Tuition Trust Authority (OTTA), or Putnam, and the contributors to the program assume all investment risk, including the potential loss of principal and liability for penalties such as those levied for non-educational withdrawals.

Neither the State of Ohio nor OTTA shall have any debt or obligation to any contributor, beneficiary, or other person as a result of the establishment of the CollegeAdvantage program. Neither the State of Ohio nor OTTA assume any risk or liability for funds invested in the program.

PUTNAM INVESTMENTS

This information should not be considered tax or investment advice. Numerous changes in the tax law have made college savings plans more accessible and attractive to many people. You should consider the place of various education planning vehicles in the context of your overall financial plan with a financial and/or tax advisor. This presentation, which is only a summary of various plan provisions, should not be treated as a substitute for such advice. This material must be preceded or accompanied by a plan offering document. Please read this material carefully before making any investment decisions.

Putnam CollegeAdvantage is a 529 college savings plan sponsored by the Ohio Tuition Trust Authority, managed by Putnam Investment Management, Inc. and distributed by Putnam Retail Management, Inc.

For more information on any Putnam product, please contact your investment advisor or call Putnam at 1-800-225-1581.

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